

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

---

Report No. 58032

**CITY OF BLAINE**

Whatcom County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: January 31, 1997

---

## TABLE OF CONTENTS

	Page
<hr/> <b>Management Section</b> <hr/>	
Independent Auditor's Report On Compliance With Laws And Regulations At The Financial Statement Level (Plus Additional State Compliance Requirements Per RCW 43.09.260) . . . . .	M-1
Independent Auditor's Report On Internal Control Structure At The Financial Statement Level . . . . .	M-3
Schedule Of Findings:	
1. The City Should Comply With Statutory And Local Purchasing Requirements . . . . .	M-5
<hr/> <b>Financial Section</b> <hr/>	
Independent Auditor's Report On Financial Statements And Additional Information . . . . .	F-1
General-Purpose Financial Statements:	
Combined Balance Sheet ) All Fund Types And Account Groups - 1995 . . . . .	F-3
Combined Statement Of Revenues, Expenditures And Changes In Fund Balance ) All Governmental Fund Types - 1995 . . . . .	F-5
Combined Statement Of Revenues, Expenditures, And Changes In Fund Balance ) Budget And Actual ) All Governmental Fund Types - 1995 . . . . .	F-6
Combined Statement Of Revenues, Expenses, And Changes In Fund Equity ) Proprietary Funds - 1995 . . . . .	F-8
Combined Statement Of Cash Flows ) All Proprietary Fund Types - 1995 . . .	F-9
Notes To Financial Statements . . . . .	F-10
Additional Information:	
Schedule Of State Financial Assistance - 1995 . . . . .	F-30
<hr/> <b>Single Audit Section</b> <hr/>	
Independent Auditor's Report On Supplementary Information Schedule Of Federal Financial Assistance . . . . .	S-1
Schedule Of Federal Financial Assistance - 1995 . . . . .	S-2
Notes To Schedule Of Federal Financial Assistance . . . . .	S-3
Independent Auditor's Report On Compliance With The General Requirements Applicable To Federal Financial Assistance Programs . . . . .	S-4
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Major Federal Financial Assistance Programs . . . . .	S-6
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Nonmajor Federal Financial Assistance Program Transactions . . . . .	S-8
Independent Auditor's Report On Internal Control Structure Used In Administering Federal Financial Assistance Programs . . . . .	S-9
Schedule Of Federal Findings:	
1. Claims For Reimbursement Of Federal Program Costs Should Be Adequately Supported . . . . .	S-13
Schedule Of Questioned Costs . . . . .	S-15
Status Of Prior Findings . . . . .	S-16
<hr/> <b>Addendum</b> <hr/>	
Directory Of Officials . . . . .	A-1

**CITY OF BLAINE**  
**Whatcom County, Washington**  
**January 1, 1995 Though December 31, 1995**

---

**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

---

Mayor  
City of Blaine  
Blaine, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the City of Blaine, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Blaine is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on general requirements and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

November 27, 1996

CITY OF BLAINE  
Whatcom County, Washington  
January 1, 1995 Though December 31, 1995

---

**Independent Auditor's Report On Internal Control Structure  
At The Financial Statement Level**

---

Mayor  
City of Blaine  
Blaine, Washington

We have audited the general-purpose financial statements of the City of Blaine, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on general requirements and the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

November 27, 1996

CITY OF BLAINE  
Whatcom County, Washington  
January 1, 1995 Though December 31, 1995

---

Schedule Of Findings

---

1. The City Should Comply With Statutory And Local Purchasing Requirements

During our audit of the City of Blaine's purchasing system we noted the following instances of noncompliance with bid laws:

- a. Our review of the purchases made by the city revealed the city had used a vendor list to make purchases. The city could not provide documentation to show the city had properly solicited vendors to be placed on the vendor list or made the quotes available for public inspection as required by the *Revised Code of Washington* (RCW) 39.04.190.
- b. Our review of individual vouchers revealed numerous purchases which did not comply with the city's purchasing policy. Of the sixteen vouchers selected for review, eight fell under the authority of the city's purchasing and procurement policy. Of those eight, we noted seven did not comply with the above referenced policy. The following are the instances noted:
  - (1) The city did not obtain written estimates from two vendors for the repair of sidewalks for \$9,018 and the purchase of transformers for \$10,768.
  - (2) The city did not obtain and/or document phone quotes from three vendors for the purchase of an electronic gate system for \$7,832, painting services for \$7,941, and landscape services for \$4,551.
  - (3) The city's annual contract for fuel purchases was never advertised in an official newspaper. Instead, an invitation was mailed to known providers of fuel. The city's purchases under this contract exceeded \$24,000 in 1995.
  - (4) The city claimed a sole source exemption for the purchase of \$4,844 of monitoring equipment for the water department. The city council had not passed a resolution authorizing the waiver of bid requirements.

RCW 35.23.352 (8), states in part:

For advertisement and formal sealed bidding to be dispensed with as to purchases between seven thousand five hundred and fifteen hundred dollars, the council or commission must authorize, by resolution, use of the uniform procedures provided in RCW 39.04.190 . . . .

RCW 39.04.190, states in part:

. . . (2) At least twice per year, the municipality shall publish . . . a notice of the existence of vendor lists and solicit the names of vendors for the lists. Immediately after the award is made, the bid quotations obtained shall be recorded, open to public inspection, and shall be available by telephone inquiry.

City Policy No. 6-1.8.0, states in part:

.2 Generally, the procurement of supplies and services under \$5,001 will require three telephone quotes . . .

.3 Procurement of supplies and services over \$5,000 but less than \$7,501 shall require solicitation and documentation of a minimum of three telephone quotes.

.4 Procurement of supplies and services over \$7,500 but less than \$15,001, shall require the solicitation of at least three written quotes including selections from the list of vendors . . .

.5 Procurement of supplies and services over \$15,000 will require the solicitation of formal bids pursuant to conditions set forth below.

City Policy No. 6-1.6.4, states in part:

.1 Bids are not required when there exists . . . a sole source of supply or service and the requirement to bid has been waived by resolution of the City Council.

The city did not make the obtaining and documentation of quotes and estimates a high priority.

By not complying with state and local statutory requirements, the city cannot be assured it obtained the best and most reasonable contracts for purchases of goods and services.

We recommend the city establish and use a vendor list as required for purchases under \$15,000 and publicly post all contracts awarded under this process. We also recommend the city obtain and document all quotations/bids and sole source waivers as required by city policy. We further recommend the city ensure all purchases requiring formal bid procedures are advertised in an official newspaper.

#### Auditee's Response

*Resolution 1141-96 establishing a vendor list process was passed on December 9, 1996. An advertisement of the establishment of a vendor list was published December 14, 1996. This enables the City to purchase items from the vendor list for purchases between \$7,500 and \$15,000 with the use of documented phone quotes.*

*Any purchase of \$5,000 or above will be reviewed by the Finance Director.*

*Each City Department will have a designated person to review purchase requests and ensure that purchases comply with the State and local bid requirements.*



Auditor's Concluding Remarks

We would like to thank the city for their response. Based upon the city's representations, it appears the matters delineated in our report have been addressed, or are being addressed.

CITY OF BLAINE  
Whatcom County, Washington  
January 1, 1995 Though December 31, 1995

---

**Independent Auditor's Report On Financial Statements And Additional  
Information**

---

Mayor  
City of Blaine  
Blaine, Washington

We have audited the accompanying general-purpose financial statements of the City of Blaine, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Blaine, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 21 to the financial statements, in 1995 the City of Blaine changed from the cash basis of accounting to the modified accrual basis of accounting for all governmental funds. The Water/Wastewater Utility Fund changed from the cash basis of accounting to the full accrual basis of accounting. The change in accounting principles has been accounted for as a prior period correction and/or a change in fund equity.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 27, 1996, on our consideration of the city's internal control structure and a report dated November 27, 1996, on its compliance with laws and regulations.

Brian Sonntag  
State Auditor

November 27, 1996

CITY OF BLAINE  
Whatcom County, Washington  
January 1, 1995 Though December 31, 1995

---

**Independent Auditor's Report On Supplementary Information  
Schedule Of Federal Financial Assistance**

---

Mayor  
City of Blaine  
Blaine, Washington

We have audited the general-purpose financial statements of the City of Blaine, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Blaine taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

November 27, 1996

**CITY OF BLAINE**  
**Whatcom County, Washington**  
**January 1, 1995 Though December 31, 1995**

---

**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

---

Mayor  
City of Blaine  
Blaine, Washington

We have audited the general-purpose financial statements of the City of Blaine, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

November 27, 1996

**CITY OF BLAINE**  
**Whatcom County, Washington**  
**January 1, 1995 Though December 31, 1995**

---

**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Major Federal Financial Assistance Programs**

---

Mayor  
City of Blaine  
Blaine, Washington

We have audited the general-purpose financial statements of the City of Blaine, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

We also have audited the city's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- reporting
- special tests and provisions related to Conservation Flexibility Agreement as described in the grant agreement/contract
- and claims for advances and reimbursements

The management of the city is responsible for the city's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City of Blaine complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

November 27, 1996



**CITY OF BLAINE**  
**Whatcom County, Washington**  
**January 1, 1995 Though December 31, 1995**

---

**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Nonmajor Federal Financial Assistance Program Transactions**

---

Mayor  
City of Blaine  
Blaine, Washington

We have audited the general-purpose financial statements of the City of Blaine, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996.

In connection with our audit of the financial statements of the city and with our consideration of the city's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the City of Blaine had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

November 27, 1996

**CITY OF BLAINE**  
**Whatcom County, Washington**  
**January 1, 1995 Though December 31, 1995**

---

**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

---

Mayor  
City of Blaine  
Blaine, Washington

We have audited the general-purpose financial statements of the City of Blaine, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 27, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated November 27, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the city complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated November 27, 1996.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Cash disbursements
  - Accounts payable
  - Purchasing and receiving
- **General Requirements**
  - Political activity
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements
- **Specific Requirements**
  - Types of services
  - Eligibility
  - Reporting
  - Special requirements
- **Claims For Advances And Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Cash receipts
  - Receivables
  - Payroll
  - Inventory control
  - Property, plant, and equipment
  - General ledger
- **General Requirements**
  - Davis-Bacon Act
  - Relocation assistance and real property acquisition
  - Subrecipient monitoring

- **Specific Requirements**  
Matching, level of effort, earmarking
- **Amounts Claimed Or Used For Matching**

During the fiscal year ended December 31, 1995, the city expended 81 percent of its total federal financial assistance under a major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the city's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the city's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness. The condition, which is identified in the Schedule of Federal Findings accompanying this report, was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the city's compliance with requirements applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995, and this report does not affect our report thereon dated November 27, 1996.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

November 27, 1996

## Schedule Of Federal Findings

---

1. Claims For Reimbursement Of Federal Program Costs Should Be Adequately Supported

Our review of reimbursement requests the City of Blaine made under the Bonneville Power Administration (BPA) Conservation Resource Acquisition, Energy Smart Design and Weatherwise Programs (CFDA 81.999) disclosed the following instances of costs claimed which were not adequately supported:

- a. Conservation Resource Acquisition. For fiscal year 1995, the city received reimbursement of \$240,677 but had supporting documentation for only \$223,453. Included in this amount was a \$10,000 claim for administrative costs supported by only \$1,160 in actual invoices, a \$54,664 claim for equipment supported by only \$46,738 in actual invoices and an invoice for \$910 which was claimed twice. Other miscellaneous undocumented claims and unclaimed costs resulted in a net credit of \$453 to the city. This resulted in total questioned costs of \$17,223 (See attached Schedule of Questioned Costs).
- b. Energy Smart Design. The January 1995 reimbursement request was overstated by \$270 due to a transposition error. An additional error by BPA resulted in an additional overpayment of \$30. The April 1995 reimbursement request claimed \$11,713 in costs which were supported by only \$11,665 in documented expenses. This resulted in questioned costs of \$348 (See attached Schedule of Questioned Costs).
- c. Weatherwise Program. The City of Blaine claimed \$1,585 of conservation incentive payments twice during the period from October 1994 through March 1995. Based upon an earlier program review by BPA, the city was required to expend specified funds on conservation measures to compensate the BPA for prior period deficiencies. The city was not allowed to request reimbursement for those costs but was required to report the costs to the BPA. The city had overstated the costs by \$1,585. (See attached Schedule of Questioned Costs).

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreement with State and Local Governments* Subpart C, § \_\_\_.20(a)(6) states:

Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

City personnel were unaware of the above grant requirements and did not have review procedures in place to ensure compliance with grant requirements. By not complying with

the grant requirements, the city could be required to pay back part or all of the revenues received under the grant programs.

We recommend:

- a. The city request reimbursement for only those costs actually incurred by the city.
- b. The city establish procedures to ensure only actual allowable costs are claimed for reimbursement.
- b. The city come to an agreement with the Bonneville Power Administration regarding final disposition of all unsupported claimed costs.

Auditee's Response

*City of Blaine Policy 7-04 on State and Federal Grants was passed February 23, 1996. This policy sets up procedures for review and approval of grant reimbursement requests. This procedure will be used before any grant reimbursement requests are submitted to the granting agency.*

*The Bonneville Power Administration will be contacted regarding disposition of all unsupported claimed costs.*

Auditor's Concluding Remarks

We would like to thank the city for their response. Based upon the city's representations, it appears the matters delineated in our report have been addressed, or are being addressed.

CITY OF BLAINE  
Whatcom County, Washington  
January 1, 1995 Though December 31, 1995

---

Schedule Of Questioned Costs

---

<u>Grant</u>	<u>CFDA Number</u>	<u>Report Year</u>	<u>Costs Questioned</u>
Conservation Resource Acquisition (Contract No. DE-MS79-95BP94689)	81.999	1995	\$17,223
Energy Smart Design (Contract No. DE-MS79-92BP93837)	81.999	1995	348
Weatherwise (Contract No. DE-MS79-90BP92996)	81.999	1995	<u>1,585</u>
Total Questioned Costs			<u>\$19,156</u>



CITY OF BLAINE  
Whatcom County, Washington  
January 1, 1995 Though December 31, 1995

---

## Status Of Prior Findings

---

The findings contained in the fiscal 1994 audit report were resolved as follows:

1. The City Should Only Pay For Services Which Have Been Rendered And Which Are Allowable City Expenditures

*Resolution:* The city has amended its agreements to require documentation of services provided and/or costs incurred. The finance director is reviewing requests for payment. We did note one exception and have advised the city to continue to improve.

2. The City Should Report And Account For The Water/Wastewater Based Upon Generally Accepted Accounting Principles

*Resolution:* The city reported the Water/Wastewater Utility Fund on the full accrual method.

3. The City Should Improve Controls Over Public Works Materials And Supplies Inventory

*Resolution:* The city has made significant improvements in the public works materials and supplies inventory control system. We will continue to monitor in the future.

4. The City Public Works Department's Work Order System Needs To Be Strengthened And Implemented Department Wide

*Resolution:* The city has made significant improvements in the public works work order control system. We will continue to monitor in the future.

5. The City Should Improve Its Accounting For Fixed Assets

*Resolution:* The city has made significant improvements in its accounting for fixed assets and property management. We will continue to monitor this in the future.